Startup-Friendly Resource Directory - Pg 19

The Monthly Resource Guide For Startup Businesses

NEW BUSINESS MINNESOTA

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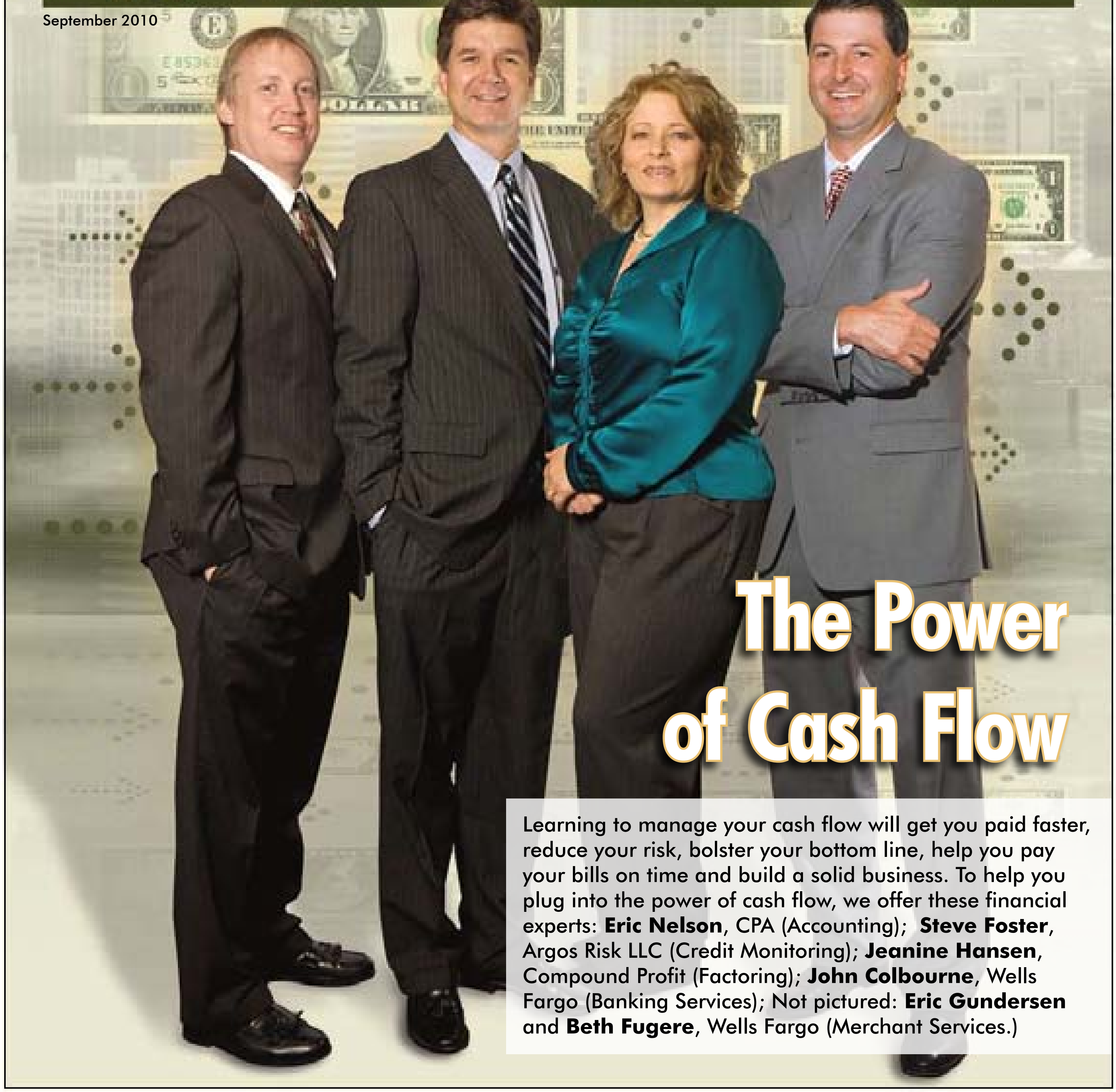

The Power of Cash Flow

Learning to manage your cash flow will get you paid faster, reduce your risk, bolster your bottom line, help you pay your bills on time and build a solid business. To help you plug into the power of cash flow, we offer these financial experts: **Eric Nelson**, CPA (Accounting); **Steve Foster**, Argos Risk LLC (Credit Monitoring); **Jeanine Hansen**, Compound Profit (Factoring); **John Colbourne**, Wells Fargo (Banking Services); Not pictured: **Eric Gundersen** and **Beth Fugere**, Wells Fargo (Merchant Services.)

The Power of Cash Flow

Learning to manage your cash flow will get you paid faster, reduce your risk, bolster your bottom line, help you pay your bills on time and build a solid business.

From the Publisher: For many new businesses, their first experience with cash flow is negative. Invoices have been sent out and payments are….trickling in….not showing up…..going to collections. Cash flow is something that you can manage and control. It doesn't have to be some surging river whose swift current has you in its grip.

When you take control, you can benefit from the Power of Cash Flow. You'll get paid quicker and more often. You can pay your vendors on time and build a solid credit reputation. You can better plan for your future and build a better business.

New Business Minnesota approached the experts on these pages to share their advice on what every new business needs to know about the Power of Cash Flow.

The authors will share more information in a free interactive workshop from 2:30 p.m. to 5 p.m. on Oct. 14 at the Sheraton Bloomington Hotel. New Business Minnesota will hold its monthly Startup Meetup networking event immediately following. Register and RSVP at www.newstartupmeetup.com .

Manage Cash, Manage Growth for a Successful Small Business.

Time-Honored Management Tips To Keep Your Cash Flow Flowing.

By John Colbourne
Special to New Business Minnesota

Whether the economy is up or down, cash is the lifeblood of every business. No matter the size, all companies recognize that managing cash is essential to managing growth and achieving success. Here are time-honored tips that could assist you:

Plan to maximize cash flow. Make sure you have a business plan that gives you a thorough understanding of your company's financial situation. Use the plan to develop a cash flow forecast, which allows you to plan for cash needs, spot possible cash shortfalls and put extra cash to work earning interest and dividends. Take advantage of programs offered at local universities and economic development agencies to help you develop these skills.

Don't shortchange cash flow forecasts. Do you know how much cash your business has now? How much will it have in six months? Familiarity with key concepts of cash flow can help you answer these questions. It's important to know the difference between cash and profits and between working cash and working capital. Another important difference: cash and accounts receivable.

Even if your business is projected to make a profit this year, you need to make sure there's enough cash for paying day-to-day expenses. Companies need working cash to meet ongoing obligations such as rent, payroll, supplies and energy bills. Working cash must be in hand not cash you will receive whenever accounts receivable start rolling in. Working capital is used for fixed assets such as equipment, buildings and other depreciable expenses.

A cash budget can help you calculate how much cash you need to keep your company running smoothly and have the money you need to meet obligations at specific times. With a realistic cash budget, you're better able to avoid surprises and build a solid foundation to grow your business.

Closely track receivables. The more efficient you are at billing and collections, the better your cash flow. Making sure customers pay on time is essential. One way to improve your receivables process is to offer incentives to customers who pay for part of their order up front. Or, consider requiring payment by credit card for all invoices under $2,500 so you receive immediate payment. Let new customers know that you're serious about collections. Establish your credit policy and inform customers what it entails, including steps you take to collect on delinquent accounts.

No matter what measures, late payments do happen. Along with a good credit policy, you need solid procedures for collecting overdue bills, including determining whether to retain a collection agency. .

Do your homework. Grow your business with customers who can pay their way. With their permission, you can run credit checks on new customers or use check verification services to run instant credit checks. Dun & Bradstreet and other reporting agencies can provide credit checks on prospective customers. Many business owners use detailed credit applications and carefully check references.

Consider giving sales staff an incentive to call on quality accounts by tying commissions to customer payments, not to orders.

Stay on top of payables. Good cash management means effectively managing payables. Use the full time period that vendors provide you to pay bills – without incurring late fees and interest charges – before sending in your payments.

By developing solid working relationships, your vendors are more likely to work with you to reschedule payments or grant more lenient credit terms if you ever face a challenge making payments.

Manage surplus cash. Knowing there's more cash on hand than you need for near term expenses can be a great feeling. Resist the temptation to spend it. Also, contain the urge to be debt-free by paying ahead on non-revolving obligations – this may leave your company cash-strapped in the next cycle.

Instead, put your cash to work to generate more income through credit lines for short-term needs and accessing interest free credit by moving appropriate expenses to business credit cards and paying the full amount on scheduled dates with no interest expense.

Leverage credit. In the current environment, it may make sense to leverage credit instead of using up your cash reserves to purchase equipment, supplies or to expand your business. Applying for credit when cash reserves are high may help to build the credit history of your business. Equipment finance loans, business credit cards or business lines of credit may all be sources of funding for purchases you are thinking about now that you have cash on hand.

Build solid relationships with professionals. Early on, find a good accountant, a good lawyer and a good banker. They can help you set up the financial system and legal structure you'll need later when business takes off. Develop a solid relationship with each, communicating regularly about your business.

Take time to meet regularly with your banker to review products, services and fees, to share information about any changes in your business and to discuss opportunities to save your business money and enhance cash flow. Your focus on good cash management will help your small business grow and succeed.

John Colbourne is a Community Banking president in Wells Fargo's Metro Minnesota region. He can be reached at:
john.colbourne@wellsfargo.com
(612) 316-3288.

How Is the Pulse of Your Business?

Mastering P&L, Balance Sheet and Statement of Cash Flow Reports is Key to Success.

By Eric R. Nelson, CPA

Special to New Business Minnesota

Monitoring and managing your cash flow is important for the vitality of your business. The first signs of financial woe appear in your cash flow statement, giving you time to recognize a forthcoming problem and plan a strategy to deal with it.

And with periodic cash flow analysis, you can identify which aspects of your business have the potential to cause cash flow gaps and head off those unpleasant financial glitches.

Some business experts even say that a healthy cash flow is more important than your business's ability to deliver its goods and services. That's hard to swallow, but consider this: if you fail to satisfy a customer and lose that customer's business, you can always work harder to please the next customer. But if you fail to have enough cash to pay your suppliers, creditors, or employees, you're out of business.

Tracking Your Key Components

The first step toward taking control of your company's cash flow is to analyze the components that affect the timing of your cash inflows and outflows. To do this, you must have an accounting system capable of providing you with accurate accounts receivable, accounts payable and cash balance reporting tools, as well as a profit & loss, balance sheet and statement of cash flows.

Having a good accounting and reporting system will allow you to evaluate the health of your cash position. But keep in mind, profit is much different than cash flow.

Let's take a look at an example of how that's possible:

Let's say your retail business bought a $1,000 item and turned around to sell it for $2,000, then you have made a $1,000 profit.

But what if six months pass before you collect on the account? Your retail business may still show a profit, but what about the bills it has to pay during that six-month period? You may not have the cash to pay the bills despite the profits you earned on the sale.

Furthermore, this cash flow gap may cause you to miss other profit opportunities, damage your credit rating, and force you to take out loans and create debt.

A quality accounting system implemented to fit your business will help identify and give you the tools to avoid problems such as these. As long as the system is maintained, your accounting system will be invaluable. This is true for any business, but especially critical for start-up businesses during their formative years.

Managing Your Taxes

Whether it's paying them, complying with the laws, or filling out forms, one thing is certain: Everyone hates taxes. However, for a business owner, they are a significant part of your operations and they demand attention. Taxes comprise at least 30 percent of your bottom line. Therefore, they must be managed in order to keep your cash working for your business, instead of feeding the government.

Having accurate accounting records is imperative to effective tax management. Many businesses are pass-through entities like an LLC or S-corporation. That means the profit earned by those types of entities is actually taxed on the owners' individual income tax returns.

Because of this, business owners will need to calculate their individual tax liability, which includes the income from their LLC or S-Corporation on a quarterly basis and make estimated payments to the government.

Pay too much in estimates and you'll drain your much needed cash from your business coffers. Get lazy and miss your estimates and you'll get a nasty tax bill come April 15. Either situation can be devastating to cash flow.

No business owner has a crystal ball to see exactly what their profits are going to look like. In order to achieve these important calculations it is highly recommended that you work with your CPA on a quarterly basis to estimate your tax payments.

Exploiting Your Core Business

Before moving on to the next product or service line, careful analysis must be done in order to determine if the business has made their core business as efficient as possible. Are there systems or procedures that could be implemented to wring more profit out of the core? Can the production cycle or supply chain be shortened to gain efficiencies and avoid tying up cash into inventory? Cash-flow analysis will help here, too.

Create Your Board of Advisors

Every business that's serious about staying in business needs a group of advisors that they meet with on a regular basis. At a minimum, you need a CPA who is well versed in small business taxation and has analytical experience to help identify and avoid problems in your business. A solid attorney with an emphasis on business law is essential for legal entity protection, contract review and employment issues. Finally, finding a banker with the skills and products to help you grow your business is crucial when you need money for expansion or upgrading.

Our firm has had much success in helping clients identify the metrics that drive their business and use them to reach even greater profitability in their core businesses. Once this has been achieved, then evaluating complementary products and services can be considered. Without your core business running smoothly and generating cash, you probably won't have a business to run.

Eric R. Nelson, CPA MBT is the President of the Eden Prairie based accounting firm of Eric R. Nelson CPA, LLC. He has been a CPA for more than 22 years, working with start-ups, small business and Fortune 500 companies. His firm consistently saves businesses and individuals thousands of dollars in taxes through effective and cost efficient tax planning and by implementing carefully derived accounting systems. He can be reached at:

(952) 405-9054

eric@erncpa.com

www.erncpa.com

Are Your Customers Credit Worthy?

Monitoring Their Credit Activity Is Key to Managing Your Risk… and Getting Paid.

By Steve Foster

Special to New Business Minnesota

If you're a small business offering credit to your customers in the form of payment terms, you may not realize it, but you're re acting as their unofficial banker. Unlike a bank, however, you're shouldering all the risk without the credit-analysis tools or experience of a professional lender.

Extending credit can put your business at risk, but there are ways to manage the process.

I've been in the lending business for 20-plus years, and I've never seen such a volatile environment for businesses to get paid for a sale they've made.

For years, my team and I have been studying credit risk management for small businesses. We think the best ways to avoid getting stung by credit problems is a combination of vigilance and information.

A small business person needs to stay alert – watching for warning signs that a customer is struggling to pay its accounts. Sometimes it's obvious, such as extended accounts receivable. But sometimes it's hidden, such as the lien or debilitating lawsuit you didn't know was facing a customer.

Vigilance is one thing, but getting your hands on the right kind of information is quite another. You need the right kind of data to help you identify a potential payment problem. With so many of us facing information overload, it's important to get that information in a form you can understand and work with.

My credit monitoring history goes back more than 15 years when some partners and I co-founded PrinSource, the asset-based and receivables-based lender. We quickly discovered that our clients needed lots of help managing their credit.

Here are some of the things we've learned over the years that are beneficial to businesses of any size:

Realize that a sale isn't a sale until you get paid. Many companies spend a considerable amount of time and energy making a sale, and then do little more than hope they get paid for it. It's better to know in advance if you're dealing with an unacceptable credit risk rather than consummating a hard-fought sale for which you may not get paid or have to absorb the cost of a delayed payment.

Start monitoring your clients' credit. Starting a business relationship with some-

one – a customer, supplier or even competitor – without doing your due diligence is a recipe for late payments.

Today, there are several options, some more time-consuming than others. As you probably keep hearing from nearly every business advisor you meet, business owners need to pick and choose what tasks to take on themselves and what to farm out.

Research can be as simple as doing a web search on a new client before you give them credit. You could run traditional – but often very technical and detailed – credit reports from Dun & Bradstreet, or other similar services. Or, consider a service that uses analytics to translate the volumes of data available into easy-to-understand reports.

Your process should fit your ability to collect and interpret information.

Take the emotion out of the process. We all want to provide someone with the benefit of the doubt, but the old days of asking a potential client how his business is going, then extending credit based on his answer, are long gone. Make sure you're looking at objective data to get a clear view of your clients' credit picture.

It's important to be diligent and consistent. Make it a habit to do this basic research for every customer. Establish a process that you can easily follow, and then keep an eye on them throughout your relationship. The landscape can change very quickly, and you want to make sure to keep on top of their financial health so you can make sure your company doesn't get left holding the bag.

Depending on your business, monitoring clients in your spare time may not be feasible. That's why we started Argos Risk, after clients began asking us for help with monitoring the creditworthiness of their customers, suppliers, competitors and even their own companies. They just couldn't keep up with the demands of the process.

We addressed the problem by creating a Web-based dashboard that delivers easy-to-understand financial information to a businessperson's computer desktop. It's supplemented by an alert system that provides subscribers email notification of new or major changes in risk.

They can choose exactly which customers, suppliers or competitors to continuously monitor. In addition, the subscriber can set the alert status to reflect an individual tolerance for risk – much as you would set a risk tolerance with an investment advisor.

Credit monitoring pays off. One of the early users of our credit monitoring service is Chris Kelly of AssetHR, a human resource services outsourcing firm. He reports that monitoring alerted his company that two customers were on the verge of bankruptcy. Chris said the early warning put AssetHR at the top of the list of creditors rather than the bottom, and saved his company money by canceling services instead of providing services and issuing invoices that would probably never be paid.

Cash is king for small businesses trying to make payroll and pay operating costs. And keeping an eye on the credit status of the customers who owe you money is smart way to make sure that each sale really does convert to cash.

Get started today.

Steve Foster is CEO and co-founder of Argos Risk LLC and is the development leader for the risk management systems and data acquisition strategies utilized in Argos Risk Online. In 1995, he co-founded PrinSource, the financial services company specializing in collateral based financing. He has spent the past 15 years implementing technology solutions for risk management and business evaluation. To receive 10 percent off typical subscription rates through Sept. 30, 2010, go to www.argosrisk.com/newbusminn. He can be reached at:

(877) 747-5411

sfoster@argosrisk.com

Accepting Credit Cards Is Good for Customers and Cash Flow.

Merchant Services Offer Benefits of Increased Sales Revenue.

By Eric Gunderson and Beth Fugere

Special to New Business Minnesota

The popularity of credit and debit cards continues to grow in today's increasingly cashless society. Consumers are paying with cards more than ever before — according to a 2008 Study of Consumer Payment Preferences conducted by Hitachi Consulting and administered by the Harris Poll Online, electronic payments account for 63 percent of all in-store payments.

Your customers want choices and flexibility in how they pay for goods and services. They want speed, simplicity and above all, security in their transactions. You can meet their preferences and enhance your revenue by accepting a wide variety of payment methods, and having up-to-date equipment for processing.

Increase cash flow, sales and revenues

In the 2007 Visa Canada Association Research: "How Small Business Buys and Sells," 73 percent of respondents who accept credit cards strongly agree or agree that accepting cards has improved their cash flow because payment is made immediately.

Also, according to the Visa Canada Handbook: Best financial practices for Canadian businesses (May 2007), 32 percent of small businesses surveyed experienced an increase in sales when they started to accept credit cards – with some increases topping 30 percent per year.

Card acceptance is essential for mail, phone and Internet sales

Internet sales are growing at an astounding rate, and represent a significant percentage of all retail sales. If you're doing business on the Internet, the major card associations (Visa® and MasterCard®) have developed several solutions that can help you determine a card's validity when the card is not present. There is a three-digit code printed on or near the signature panel of each card. When you submit this code as part of your authorization process, a cardholder database will tell you if this unique number matches the number in the cardholder's account records.

In addition, Address Verification Services (AVS) compares the billing address provided when an order is placed with the customer's billing address on file with the card issuer. This provides an additional line of defense against fraud for the business — shipping to a verified billing address is one way to ensure that the legitimate cardholder gets their merchandise.

Debit Cards — the preferred choice of consumers

Debit Cards are seeing a significant increase in popularity, as consumers wary of carrying cash or checks are now using Debit Cards for smaller amount purchases. The 2009 Debit Issuer Study, commissioned by PULSE, revealed that consumers are showing a growing preference for PIN Debit Cards. In the last six months of 2008, PIN debit transactions increased by an astonishing 15 percent.

Debit now has the highest share of in-store payments at 37 percent compared to 22 percent of payments made by credit card according to the 2008 Study of Consumer Payment Preferences conducted by Hitachi Consulting and administered by the Harris Poll Online.

There are advantages to businesses that accept Debit Cards. Debit transactions can offer higher security to both businesses and cardholders. In addition, they provide the ability to tap the market of consumers who use pre-paid cards or payroll cards.

Card sales can help reduce fraud

There are several ways for a business to reduce exposure to credit or debit card fraud. When verifying the legitimacy of the card and cardholder, the signature on the card should always be checked first. If the card is not signed, the customer should be asked for identification. The authorization process also offers protections. Here's what happens when you authorize a credit card transaction:

1. Information about the card and the transaction are transmitted to your merchant services provider.
2. An authorization request is routed through the Visa and MasterCard authorization network.
3. Your request is sent to the customer's card issuer.
4. The issuer's response is routed back through the authorization network.
5. An authorization code is displayed on your terminal, software or gateway.

Your authorization request is very quickly routed through a database that is continually updated with information about lost or stolen cards. Even if a card was reported stolen an hour ago, you'll know it, based on the response code you receive.

Welcome your international customers

The Internet and e-commerce have opened sales opportunities for merchants by enabling them to target customers in countries around the world. This global opportunity presents unique payment processing challenges. Your international customers prefer to make purchases in their local currencies, so they know the exact price they will be charged.

Whether your customer is a U.S. or overseas shopper on your website, you can process card transactions quickly and securely, ship merchandise to a verified billing address and be funded in a number of different currencies.

Take advantage of Visa and MasterCard marketing

Be sure to display signage showing all the different cards you accept at your retail location, on your website and on your order forms. You can benefit from worldwide marketing campaigns used by Visa and MasterCard to promote their products and services. When you encourage the use of debit and credit cards at your business, you can take advantage of their prominence in the marketplace.

By offering a wide variety of payment options, you let your customers choose their

Credit Cards – Continued on Next Page

Increase Cash Velocity by Selling Your Invoices.

Accounts Receivable Financing, Known as 'Factoring,' Is Valuable Cash Flow Management Tool

By Jeanine Hansen

Special to New Business Minnesota

Fortunately, there are options like off balance sheet financing tools available to help new and small business owners better manage cash flow. These alternative financing tools are designed to help you grow your business without taking on debt and without giving away equity in your company.

And they keep your cash flowing so you can meet your immediate operating needs and help you avoid being an "accidental banker" to your customers who are slow to pay.

Accounts Receivable (A/R) financing, also known as factoring, allows a business to leverage one of its best assets – accounts receivables. If you give payment terms to your business customers you can speed up those payments by selling the invoice to a factor (the funder), who then collects the payment from your customer.

The factoring process is as follows:

1. Your company provides goods or services to a business. (Business-to-business environment only.)
2. Your company invoices that business for goods already delivered or services already rendered, allowing payment terms of 15 days or more.
3. The factor purchases the invoice from you at a discount and advances 80 percent of the value of the invoice directly to your business bank account.
4. Your customer pays the factor directly.
5. The factor submits the remaining 20 percent of the invoice, less the discount, directly to you.

Let's put some real numbers into this by using the following scenario:

1. ABC Company manufactures widgets and ships them to Company XYZ.
2. ABC invoices XYZ for $10,000 with 30-day payment terms.
3. Factor Company purchases the $10,000 invoice from ABC at a 3% discount and deposits $8,000 into ABC's checking account.
4. XYZ pays Factor Company $10,000 on day 28 of the invoice date.
5. Factor Company keeps $300 (3 percent of $10,000) and deposits $1,700 into ABC's account.

When searching for a factoring company, be sure to ask the right questions:

- Is there an application fee? (Look for a company without an application fee. A small due diligence fee once the company is qualified is common practice.)
- Do you require our company to sell every invoice to you? (Some factors require all A/R to be sold on the day the invoice is generated. Look for a company that is flexible, allowing you to choose which invoices to sell.)
- Can we hold the invoice for a period of time to keep our costs down? (Factor rates are based on time, usually the first 30 days is one rate with additional points added after 30 days. For example, 3 percent for the first 30 days with 1 percent added each 10-day period thereafter. You can save a lot of money if you can wait a couple of weeks to ensure your customer will pay the factor within 30 days of the date you sell the invoice.)
- Is a monthly minimum required? (If you are a seasonal business, be sure the factor is flexible so you are not stuck with minimum fees when you know your business will be down in your off-season.)
- Is a yearly contract required? (Some factors require a one- or two-year contract while others will do spot factoring. If you want to do spot factoring, invoice by invoice, be prepared to pay a higher discount fee.)

Some of the benefits of accounts receivable financing:

- Builds business credit
- Quick financing without mountains of required paperwork
- Accelerates cash flow based on business receivables
- Rates and approval are based on the creditworthiness of your customer base (not your business)
- Factor company handles all credit and collections, allowing you to concentrate on your business
- Your credit line grows as fast as your business grows Startup companies are a great fit for factoring because you can start out small and grow quickly. One trucking company client started with a single $600 invoice and within two years had grown to over $350,000 in invoices per month with over 400 drivers. Now that's powerful fuel for growth!

Jeanine Hansen, owner of the Compound Profit Minnesota/North Dakota region, brings more than 20 years of financial experience behind her and has been instrumental in helping local companies get financing, especially when they can't meet bank requirements. Compound Profit services include A/R and P.O. financing, equipment leasing, merchant line of credit, and commercial credit builder. Hansen earned her MBA from the University of Minnesota Carlson School of Management and a BS in Business from St. Catherine University. She can be reached at:

(877) 386-3716, ext. 216
jhansen@cprofit.com
www.cprofitmn.com

Credit Cards – Continued from Previous Page

preferred payment method. This way you can appeal to a broader base of customers looking for flexibility and convenience when purchasing your goods and services.

Eric Gundersen is a market sales manager for Wells Fargo Merchant Services in the Twin Cities. He can be reached at:

(612) 667-8628
eric.p.gundersen@wellsfargo.com

Beth Fugere is a regional marketing consultant for Wells Fargo Merchant Services in the Twin Cities. She can be reached at:

(612) 667-6190
beth.fugere@wellsfargo.com.